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UNCLAS HARARE 001588

SIPDIS

STATE FOR AF/S
USDOC FOR AMANDA HILLIGAS
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PASS USTR FLORIZELLE LISER
STATE PASS USAID FOR MARJORIE COPSON

¶E. O. 12958: N/A
TAGS: EMIN EAGR ECON ETRD EINV PGOV ZI
SUBJECT: Why Gold Is Up and Other Exports Down

Ref: Harare 1498

¶1. Summary: Zimbabwean gold production could increase 67 percent to 20 tons this year, according to industry insiders. At current world prices, bullion will easily soar past tobacco and cotton to become the country top foreign exchange earner. As part of the Government's efforts to encourage production, it is providing gold miners with zimdollars at a favorable exchange rate.

Gold Doubles Tobacco in Revenue

¶2. Econoff spoke with several mining executives this week. They confirmed Reserve Bank (RBZ) Governor Gideon Gono's claims that output would rebound to about 20 tons this year, up significantly from last year's 12 tons but still shy of the 30 ton-record set in 2000. (N.B. The RBZ is 6 months behind in publishing mineral statistics.) From 2000-2003, Zimbabwean gold production slipped from third to seventh in sub-Saharan Africa. At the current US$390/oz world price, industry reps estimate Zimbabwe will earn US$250 million this year, roughly double the revenue anticipated from tobacco (ref).

¶3. Unlike its treatment of other export commodities that it requires be sold to the government, the GOZ has established a realistic floor price for gold that nearly reflects the world price. The current rate the government is paying miners is Z$85,000/gram. Although the currency is not freely convertible, this equates to about US$ 15.00/gram versus a world market price of US$ 12.50/gram at the official exchange rate of Z$5600. The GOZ is not, in fact, paying above the world price, but instead is simply incentivizing production by offering golf miners a favorable exchange rate of Z$6800:US$, much closer to the current parallel market rate of Z$7500:US$1. In further contrast to its handling of other exporters, the RBZ does not require gold producers to exchange 25 percent of earnings at the ultra-low Z$824:US$ rate, provided they accept all revenue in zimdollars.

Comment

¶4. Gold's resurgence underscores how rapidly certain aspects of the economy can bounce back under favorable macroeconomic conditions. The GOZ has deployed a concerted strategy to boost output, including use of a favorable exchange rate and elimination of disincentives such as the 25 percent retention requirement. The GOZ's use of a favorable exchange rate for this sector also indicates the artificiality of the official rate and how difficult it may be to maintain it over time.

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